

Merging Gold and the New Financial Systems in India

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Gold: it's time to bring India's oldest asset into its newest financial system

Long before Bombay had a stock exchange or Calcutta a central bank, India had gold. For much of its history, that was enough. It was the household's hedge against bad harvests, rapacious tax collectors and worse. Indigenous bankers (sahukars, shroffs, sarrafs) ran credit and remittance networks of striking sophistication without any central authority in sight: decentralised, though hardly trustless, long before either word became fashionable. Rural and urban borrowers alike raised liquidity by pledging jewellery, reaching places formal banking would not serve for centuries. Merchants settled distant transactions through hundis, bills of exchange that moved value across the subcontinent without a coin changing hands; a medieval wire transfer, in effect.

During the colonial days, Britain built a modern financial system atop this one, but did not replace it. It left the foundations intact but the rooms unused. Gold was pushed to the margins of a monetary order designed around imperial requirements. Indigenous bankers kept lending, taking deposits and moving money, but were steadily excluded from the state-sponsored architecture growing up beside them. By independence in 1947, India had a modern central bank and, beneath it, an enormous informal economy still running on gold, reputation and personal trust. Two financial systems occupied one country without ever quite meeting.

That was independent India's chance to fold its oldest asset into its newest institutions. Instead, the early republic tightened the separation, restricting traditional gold finance without building a formal substitute able to reach everyone who depended on it. The harshest controls were eventually lifted, but what followed was not integration so much as an oscillation between neglect and half-measures.



Official schemes to draw household gold into the banking system, from the 1999 Gold Deposit Scheme onward, repeatedly failed to attract meaningful volumes. Private lenders that did build a bridge, making loans secured against jewellery, were met with regulatory suspicion as often as support.

The macroeconomic bill is plain: gold imports still weigh materially on India's trade balance, while households and small businesses possessing real collateral remained stuck with costly informal credit, or none at all, causing a persistent drag on growth. Three-quarters of a century on, the state still treats gold chiefly as a balance-of-payments liability; most of the population still treats it as savings, insurance and emergency capital. The Raj-era wall has outlasted the Raj.

Technology should now break down the wall. The opportunity is large: the overwhelming majority of India's privately held gold sits inert in lockers, cupboards and temple vaults. But jewellery can now be authenticated cheaply and quickly, recorded securely, and pledged as collateral through a regulated digital network, without being melted, surrendered to a bank, or converted into bullion. That is not a better version of the old gold-deposit scheme; it is a different thing entirely: collateral infrastructure rather than a deposit product.

Two distinctions matter here, and conflating them would waste the opportunity. The loosely regulated "digital gold" sold today through payment apps is not a title to physical metal; it is closer to a private IOU, without audited reserves or guaranteed redemption.

A genuine digital gold instrument needs to be the opposite: a clear legal claim on identified or pooled bullion, held in bankruptcy-remote custody, independently reconciled, and governed by strict rules on valuation, transfer and use as collateral. Building that instrument, rather than merely tolerating today's informal one, is the actual task.

The last-mile network for it already exists, in India's many jewellers, who have the customer relationships and the practical skill to inspect gold that no bank branch can replicate. What they have lacked is a common framework (legal, technological, regulatory) linking them to banks, insurers, vaults and capital markets. The pieces to build one are now largely at hand: mobile identity, digital payments, cheap karat-testing devices, geotagging, electronic documentation, AI-assisted fraud checks and interoperable collateral registries can turn a fragmented trade into national infrastructure, converting wealth that behaves like cash under a mattress into wealth that behaves like capital in a bank.

None of this eliminates risk; gold-backed fintech has already produced its share of shoddy products and cash-heavy lending abuses. But leaving most household gold outside the regulated system does not remove those risks. Instead, it simply hands them to less transparent markets. Technology is no longer the obstacle. The remaining wall is regulatory and institutional: building rules fit for a genuine gold-backed instrument, and a market ecosystem that finally lets India's oldest financial habit meet its newest one.

